

ORIGINAL

Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Mailing Online Service

Docket No. MC98-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
WITNESS GARVEY TO INTERROGATORIES OF  
MAIL ADVERTISING SERVICE ASSOCIATION  
(MASA/USPS-T1-16-18)

The United States Postal Service hereby provides the response of witness  
Garvey to the following interrogatories of Mail Advertising Service Association:  
MASA/USPS-T1-16-18, filed on August 19, 1998.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

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September 8, 1998



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MASA/USPS-T1-16. Referring to your response to MASA/USPS-T1-3:

- a. Identify those instances of which you are aware where mail previously prepared and entered at the Postal Service by private businesses on behalf of their customers has been diverted to the Postal Service as a result of a Postal Service offering that is competitive with private business. Discuss whether you consider any of these instances comparable to MOL and why.
- b. Do you consider the types of diversion from one private business to other private businesses referred to in your answer to be comparable to any diversion from [sic] private business to the Postal Service that might occur with MOL? If so, explain why.

RESPONSE:

- a. I believe the circumstance described here is much more analogous to worksharing than to competition. The whole concept of worksharing is that the Postal Service offers a set of discounts that reflects the cost of certain postal activities, primarily mail processing and transportation. These discounts have resulted in the growth of an attendant industry of presorters and consolidators. Customers can choose between members' industries or the Postal Service for these services. While the Postal Service considers these industries to be important partners, the fact remains that they exist as alternatives for traditional postal activities.

As sorting and transportation practices evolve, these discounts are modified upward and downward. While the impact on industry is certainly considered in the determination of these discounts, there is no policy to maintain them at artificially high levels so as to retain certain industry

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practices at specified levels permanently. Despite the lack of such a policy, on the whole, these industries have thrived due to the overall growth of worksharing.

This question further implies that any offering by the Postal Service which results in a reduction in complexity and inefficiency in mail acceptance competes with private business. An example of the obvious logical fallacy here would be street corner postal collection boxes. If these boxes did not exist, individuals and small volume mailers unable to travel to a post office would be forced to contract with commercial firms for carriage and entry. However, the provision of these boxes should not be viewed as a form of competition with those commercial carriers through diversion of mail which might otherwise be carried by them. First, it is unlikely that they would have an interest in transporting the very small volumes involved, and second their cost for individual pickup would dwarf the \$0.32 postage charge.

In my experience, however, I have observed that when the Postal Service simplified the process of creating and submitting mailings, especially mailings discounted due to worksharing, some mail previously entered by commercial mail preparation firms migrates to direct entry. Although the

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Postal Service has an acknowledged and critical partnership with commercial mail preparation firms who facilitate use of the mail by customers who find mail preparation and entry tedious or onerous, the Postal Service's overriding obligation to the American mailing public is to simplify mailing in general and more specifically to reduce the cost and complexity of discount opportunities for all mailers.

An actual example of this would be the change in International Surface Airlift (ISAL) preparation requirements which reduced the minimum qualifying quantity from 750 pounds to 50. Some ISAL mail previously turned over to mail consolidation firms, due to the extremely high weight requirement, was subsequently entered directly by the primary mailers now able to qualify on their own. This had the effect of reducing the cost of mailing internationally, since the primary mailer received worksharing discounts but was no longer paying overhead and profit to a third party, and consequently reduced the cost for all American businesses of expanding their businesses internationally. Worth mentioning also is the reduction in time it took the mail to be entered in the mailstream and its subsequent dispatch overseas.

Another example in my experience would be the introduction of ZIP+4

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discounts. With the introduction of these rates, mail previously handed off to presort bureaus could be entered directly at a similar savings by mailers able and willing to concern themselves with the quality of their addresses.

Although these instances may have had the effect of reducing the immediate business of particular commercial entities, I do not personally consider them harmful competition, because it is the Postal Service's challenge to enable economically viable communications of the American people, not to provide financial opportunity for third party vendors.

I consider MOL to be comparable to these examples in the sense that it may in some small way divert mail that would otherwise be prepared by a third party commercial mail preparation firm to direct entry. However, third party opportunities exist because the Postal Service continues striving to find ways for Americans to mail more efficiently and economically. As they have in the past, creative and entrepreneurial service providers cannot but benefit from new service opportunities inherent in new postal offerings such as Mailing Online and the presumed overall increase in the universe of mailers in need of their services.

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- b. Yes. For example, I believe that the dynamics of the marketplace are so multifaceted that any effect of MOL diversion would compare to such business to business effects as EDI infringing upon manual accounting requirements and consequently diverting business from a local accounting firm to an IT service provider.

Changing communications and commerce needs as well as evolving work practices are affecting all business service industries, and the Postal Service must respond appropriately to its customers needs as well. As discussed in my response to MASA/USPS-T1-18, this is analogous to effects in other sectors of the federal government as well.

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MASA/USPS-T1-17. Referring to your response to MASA/USPS-T1-5(iii), that question sought your testimony as to the total universe of so-called "short run" direct mail from which the majority of MOL volume is projected to come. Your answer interpreted the question to seek evidence of the estimates for MOL volume itself. Please answer the question as clarified above.

RESPONSE:

The estimate used for total short run direct mail pieces was 17.5 billion.

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MASA/USPS-T1-18. State the Postal Service's view of the relevance to the Commission's recommended decision of the impact of MOL on private businesses providing competitive services. Include in your answer a statement of what types of competitive impact would weigh against authorization of MOL and why.

RESPONSE:

It is not my position to render a legal interpretation of the Postal Reorganization Act (Act). My understanding of the process of ratemaking, however, is that it involves Commission consideration of competition with postal services in accordance with certain rate and classification criteria, as specified in the Act. These include the impact of rate increases on competition generally. Apart from such competitive effects, it is also my understanding that in making classification recommendations the Commission must consider factors such as the relative value to the people of kinds of mail matter, the desirability of special classifications and services of mail, particularly from the point of view of both the Postal Service and the user, and the importance of providing classifications with extremely high degrees of reliability and speed of delivery, among others.

I am not aware of any specific competitive effect that would prohibit the Commission from recommending an appropriate classification or reasonable rates and fees for Mailing Online. Obviously, as a matter of policy, the Postal Service will take into account the effects of its proposals on a wide spectrum of customers and other entities, including those firms in industries that provide services associated with the processing and delivery of mail. In this regard, the Postal



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Service would be unwise not to balance the interests of its customers and the public in the most efficient and effective postal services against the interests of those service industries who are in a position to further those objectives. As reflected in my testimony and the testimony of other Postal Service witnesses, I believe that the Postal Service's proposal for Mailing Online reflects that proper balance.

I also believe that, through the Act, the Postal Service has a charter from Congress and the American people to develop, plan, promote and provide efficient and economical correspondence and commercial services that bind the nation together. It has an obligation to maintain a healthy and fiscally viable service organization with which to respond to that mandate. In my view, responding effectively to that charter is an essential goal of Postal Service policy decisions. The Postal Service's proposal for Mailing Online is consistent with and furthers those objectives. Again, I know of no specific competitive effects of Mailing Online that would warrant interfering with the policy choice to offer it on a market test and later experimental basis.

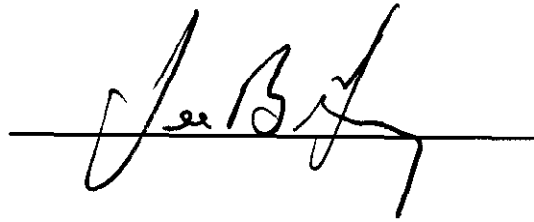
While it is not a direct or perfect analogy, I see certain similarities in the policy choices faced by the Postal Service and certain of those faced by the Internal Revenue Service in dealing with the public. Almost all of American society interacts with both agencies. Both have made possible the emergence of service industries associated with that interaction. In the Postal Service's case, the

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decisions to offer various discounts for mailer worksharing have given rise to various presort bureaus and consolidators. In the case of the IRS, there is an industry of tax preparers, tax accountants, software providers and tax attorneys. As I understand it, one of the primary goals of the IRS is to make itself easier to use. This may come in the form of permitting the electronic submission of tax returns or simplifying regulations and forms. While the attendant tax services industries might feel threatened by specific measures directed at these goals, on balance they should not be avoided solely because of the effects on these businesses.

## DECLARATION

I, Lee Garvey, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Lee Garvey", is written over a horizontal line.

Dated: 9/8/98

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
Kenneth N Hollies

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